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Project Report

BRITISH COLUMBIA FINANCIAL REVIEW:
THE ISSUE OF FINANCIAL CONTROL

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Executive Summary—Financial Control

This report examines the role of Treasury Board and the Central Agencies in establishing an effective framework for financial control within government. It concludes that current controls are insufficient to effectively manage the province's growing revenues and expenditures. The report identifies a number of government-wide issues which inhibit sound financial control. These include:

- Incomplete assessment of spending decisions and the lack of any long-term strategic context.
- Limited program evaluations and value-for-money audits.
- Inadequate financial information to provide an accurate and current picture of financial position.
- A lack of understanding and training of managers with respect to their financial management responsibilities—this has been exacerbated by the trend in recent years to decentralize the financial function.
- Controls over some key spending areas (such as new systems under development) have been poor.
- Inadequate controls over physical assets, such as computers, equipment and vehicles.
- Insufficient qualified financial resources to properly monitor and control all financial activities.
- Insufficient attention to the management, control and collection of revenues owed to the province.

To address these concerns, the report makes the following principal recommendations:

- Budgets and spending decisions should be tied to a strategic financial framework whereby they are tied to specific program goals which can be measured.
- More value-for-money audits and program evaluations of both ministries and Crown corporations should be undertaken.

- Increased accountability by Ministries and Crown corporations through reporting on their outputs and measures of effectiveness.

- Stronger functional links between the Comptroller General and the Chief Financial Officer of each ministry and Crown corporation.

- Financial control resources within ministries should be strengthened and ministries should all operate with one common accounting system.

The Issue of Financial Control

A. Introduction and summary

The subject of financial control has a number of possible meanings for those concerned with the effective working of government. It may mean any or all of the following:

- The ability of a government to ensure that budgeted amounts are not exceeded without authorization.
- The ability of a Legislative Assembly to ensure that funds are spent only as authorized.
- The ability of the Comptroller General to provide accurate and timely information on the state of the government's finances.
- The means by which expenditures are properly managed, and revenues and other assets safeguarded.

Inherent in each of these possibilities is the implication that responsibility for control of the public purse rests with the government and the public service and that effective financial control, in all of its facets, is an appropriate objective.

This paper examines the role of Treasury Board and the central agencies in establishing an effective framework for financial control, and assesses how controls have been exercised. It describes government legislation and policy, assesses government practices and provides findings and recommendations in a number of key areas: the legislative control framework, the funding mechanisms employed, the control processes followed, information systems in place, and the accountability process.

The paper is restricted to financial control in government ministries, since Crown corporations and agencies are the subject of a separate issue paper. In that paper, greater accountability over Crown corporations has been recommended through greater central coordination of the overall control framework.

1. Summary of Recommendations

- An improved control framework should be developed which provides for appropriate, direct accountability to Treasury Board and the Legislative Assembly with minimum overlap.
- The primary reports presented to the Legislative Assembly should continue, but they should each incorporate the full extent of the government's activities:

- The Estimates should include the proposed operating plans of those Crown corporations and agencies which are essentially governmental in nature, as well as of ministries.

- The Public Accounts should show a comparison between actual and estimated performance for the complete, government reporting entity.

► Ministries and Crown corporations should continue to submit annual reports to the Legislative Assembly. The reports should contain appropriate performance measures (outputs, measures of effectiveness, etc.) which have been audited. The report should be tabled by the end of the calendar year of the fiscal year reported on; eventually, it should aim to be tabled within 120 days of the year-end.

► There should be:

- Program evaluations conducted or overseen by Treasury Board Staff.

- Internal audits coordinated by Internal Audit Branch, Office of the Comptroller General. These audits would be audits of compliance with financial policy and value-for-money audits carried out in all ministries, Crown corporations and agencies.

- Reporting of the results of these audits and evaluations to Treasury Board.

► All internal audit activity for ministries and Crown corporations, except for significant commercial Crown enterprises, should be coordinated through the Internal Audit Branch, Office of the Comptroller General. Similarly, all evaluation activity should be coordinated through Treasury Board staff. Bi-annual audit and evaluation plans should be submitted through and approved by Treasury Board.

► Stronger functional links should be established between the Comptroller General and the Chief Financial Officers of each ministry and Crown corporation, such that appropriate direction can be given with respect to the application of financial controls. To be effective Treasury Board should endorse the new functional relationship.

► The Comptroller General should be in regular attendance at Treasury Board meetings to provide input on the financial, accounting and legislative implications of proposed spending decisions.

► The various funding mechanisms in place should be critically examined and, to the extent possible, those other than voted appropriations eliminated. In particular, consideration should be given to the following:

- Special Funds do not appear to have a strong justification for continued existence.

- Only those Special Accounts which are deemed necessary for separate operating agencies or enterprise centres should be retained. For those, the rationale for their continuation should be formally evaluated on a regular basis (possibly through the use of sunset clauses in the enabling legislation). Moreover, their activities and funding arrangements should be highly visible.

- Where statutory appropriations continue to exist, a reasonable estimate should be made of all of the necessary funding requirements and the reasons for this requirement (for example, by basing it on the most likely annual expenditure, given historical experience and current events). Such amounts should be fully disclosed in the Estimates.

- Existing ten dollar votes and sub-votes should be reviewed with a view to confirming that their original purpose is still valid and that adequate control is exercised over them.

- The use to which the Contingencies Vote is put should be evaluated and restricted to unanticipated events which cannot be estimated prior to the beginning of the fiscal year.

- An annual statement of Special Warrants and an explanation of their urgency should be prepared and incorporated in the Public Accounts.

- Although not previously used in British Columbia, consideration should be given to using supplementary estimates for many of the expenditures for which the Contingencies Vote or Special Warrants have typically been used, such as for supplementing existing programs, for new programs, or for unforeseen expenditures.

- The rationale for some of the existing central controls (e.g., FTE controls) should be assessed and, if they are no longer a necessary part of the control/accountability framework, they should be eliminated. Greater emphasis should be placed on proposed outputs, rather than on inputs.

- Budgets should be set within an appropriate strategic framework where they are tied to program goals and demonstrable objectives. Although top-down direction is important, it is equally critical for line managers to justify their funding requirements based upon proposed accomplishments and measurable targets. Multi-year budgets should be prepared (say, for three years) and updated on an annual basis.

- In addition to the carry forward allowed for those Special Accounts which are retained, some amount of the annual budget, say, perhaps 3% of operating expenditures and 5% of capital expenditures, should be allowed to be carried forward, with appropriate safeguards and approvals, until the following fiscal year.

- Multi-year budgets and multi-year funding mechanisms should be considered for major projects, where Treasury Board considers such approval to be in the economic interest of the province and other appropriate safeguards can be instituted.

- The Chief Financial Officer in each ministry should be suitably qualified and at an appropriate level to assist in all major financial decisions of the organization.

- Appropriately qualified and classified financial officers should exist in all major program areas. The delegation of authority is now so devolved that it is critical that properly trained and qualified personnel are in place across all ministries.

- Controls over key spending areas, such as new systems' development, should be subject both to vigorous business case analysis (and post-implementation scrutiny), as well as to an analysis as to how the proposed system fits within any government-wide strategic systems' framework.

- Greater recognition should be given to the government's commitment to revenue assessment and collection. In particular, the full cost of delivering services which may be subject to a fee should be considered in setting fee rates; a fee for service is not and should not be considered a tax rate increase. Moreover, consideration should be given to establishing appropriate incentives/sanctions at the ministry level and improving public communication with respect to the implication of the non-payment of debts to the province.

- Staffing for revenue functions should be increased where there is significant marginal return to government.

- Asset management systems should be introduced which will manage the details of all physical assets (e.g., type of asset, location, date of acquisition, cost) and maintain the database.

- Priority should be given to implementing the recommendations of the Government Accounting System Strategic Plan (GASSP) Task Force. This will entail an orderly transition to a government-wide core financial system. However, as a prerequisite to implementation of the envisaged pilot program, it will be necessary to confirm existing and emerging requirements. In particular, there will be a need to ensure the system is sufficiently robust to capture:

- All information required by central agencies for timely and accurate reports and for more effective management (e.g., ongoing commitment and accrual information).

- Information required to produce output targets and performance measures.

- Financial information of Crown corporations and agencies on a timely basis (possibly through an interface with the financial systems of those Crown corporations and agencies).

B. Description

Effective financial control is increasingly important for any government. In the Province of British Columbia, financial control is exercised at a number of levels:

- ► Cabinet assesses priorities, and approves and administers programs.

- ► Treasury Board, as a committee of Cabinet, prepares funding requirements for new and existing programs.

- ► Treasury Board, after reviewing ministry budget requests, allocates funds to each ministry and program after assessing revenue expectations and harmonizing with government priorities.

- ► The Minister of Finance and Corporate Relations presents the revenue and spending plans for each fiscal year to the Legislative Assembly.

- ► The Legislative Assembly debates and then votes approval for each package of expenditure ("Votes").

- ► Staff within the central agencies (primarily of the Ministry of Finance and Corporate Relations) provide ongoing support to Treasury Board and the Minister to make the control process continuous.

- ► Treasury Board staff review and evaluate all expenditure proposals to be presented to Treasury Board to advise on their cost and other implications, as well as assist in the development of management practices and policies.

- ► Government Personnel Services provides support to Treasury Board in the allocation and management of human resources and labour relations.

- ► The Office of the Comptroller General develops policies and procedures on financial controls, for approval by Treasury Board, and the Internal Audit Branch then audits ministry activities to ensure compliance with these policies.

Some observations on this process are worth noting at this stage:

- The process focuses on controlling expenditures; less emphasis is placed on maximizing and controlling revenues.

- The process is geared toward spending plans for the current or next year; it has not lent itself to longer-term, strategic financial planning and control other than the high-level review of the fiscal framework.

- Although Treasury Board and its staff spend a significant effort in reviewing budget requests at the end of the fiscal year for determining the subsequent year's budget allocations, their control role is ongoing: they review and approve all proposed additional expenditures on an ongoing basis, although often with incomplete information as to the full implications of spending decisions and the extent of other commitments and "lurking expenditures".

- The control role performed by the Office of the Comptroller General takes place primarily at the micro level, monitoring ministry activities and underlying systems for compliance with policy and ensuring that funds are available before a payment is made.

The implications of these observations and other issues are discussed in ensuing sections of this report.

C. Existing government policies

1. Financial Administration Act

The Financial Administration Act is the primary authority for financial control over the government's activities. It provides the legislative framework for granting government authority to spend money. It also outlines the delegation of responsibility and authority for financial administration and ensures that those responsible for controlling and managing public revenues are held accountable for their stewardship. The Financial Administration Act establishes a principal means of controlling public funds, the Consolidated Revenue Fund, into which all public monies are to be deposited and from which only authorized appropriations can be paid.

Under this Act, the Minister of Finance and Corporate Relations is statutorily appointed as chairman of the committee of the Executive Council called the Treasury Board. Treasury Board has the authority to make regulations and issue directives relating to:

- Accounting policies and practices, including the form and content of the Public Accounts and Estimates.

- Government management practices and systems.

- Government financial management and control.
- Evaluation of government programs as to economy, effectiveness and efficiency.
- Government personnel management, excluding a number of personnel management matters which are within the jurisdiction of the Minister of Government Services pursuant to the provisions of The Public Service Act.

The Comptroller General assists Treasury Board in fulfilling its responsibilities under The Financial Administration Act. Under this Act, the Comptroller General is responsible for:

- All matters relating to accounting and financial administration policies and practices.
- Government payroll and payments systems.
- Ensuring the proper collection and expenditure of public money.
- Reporting, accounting and financial control systems of government.
- Maintaining central accounts.
- Preparing financial statements and public accounts.
- Evaluating accounting and financial management systems throughout the government.

Under the Act, the Minister of Finance and Corporate Relations is responsible for:

- The management and administration of the Consolidated Revenue Fund.
- Supervision of revenues and expenditures of the government.
- The supervision, control and direction of all other matters relating to the financial affairs of government which are not statutorily assigned to the Treasury Board or to any other person.

2. Financial administration operating policies

The Financial Administration Operating Policies set out Treasury Board's approved government-wide policies for financial management and control, which provide the appropriate supporting framework to the requirements of the Financial Administration Act. The policies set out requirements and guidelines with respect to such things as:

- Financial management responsibility.
- Accounting policy.
- Budgetary controls.
- Financial systems.
- Revenue and expenditure management.
- Asset management

The Office of the Comptroller General oversees application of these policies and, through its Internal Audit Branch, monitors compliance across government ministries. Neither the Financial Administration Act nor the Financial Administration Operating Policies apply to Crown corporations and agencies. Each of these organizations operates within its own financial administrative practices.

3. Appropriations

The principal mechanism for exercising expenditure control is the annual appropriation normally approved at (or close to) the beginning of the year, by the Legislative Assembly. Appropriations are included in the Estimates which set out the proposed government estimates of revenue and expenditure for the ensuing fiscal year.

The Estimates outline the government's spending requirement for each vote. The legal spending authority for government's proposed spending is provided by the Supply Act which is passed by the Legislative Assembly when all votes have been approved. Traditionally, all funds to be expended require legislative approval in this way and any funds unspent at the end of the year would lapse.

Funds can only be spent for the purposes stated in the Estimates and expenditures cannot exceed the vote total without subsequent legislative authority. The government is not able to transfer funds from one vote to another, unless prior legislative approval has been given. However, because of the relatively small number of votes (under a hundred), some funding flexibility is provided by the ability to transfer funds between sub-votes, within a vote. This requires an administrative procedure to be followed and, in fact, it is not used to a major extent (under $20 million transferred in this way in the current year).

In addition to the annual limits established by the Supply Act, there are some expenditures with continuing expenditure authority. These are statutory appropriations which are authorized by the Financial Administration Act or by other statutes. They can be used in a number of ways:

- To supplement votes where the required spending exceeds the amounts originally approved by the Legislative Assembly.

- To provide authority for expenditures from special accounts, which are used to identify specific expenditures and which may be available for spending over a number of years (although they may have limits on timing or amounts). These expenditures are funded primarily through transfers from votes, through revenue raised for the account, or from federal funding (for joint federal/provincial cost sharing programs).

- To provide direct authorization for certain other expenditures out of the Consolidated Revenue Fund. These relate to recurring expenditures for items such as Fire Suppression and Flood Relief.

Each of the appropriation mechanisms described above—annual and statutory appropriations—is authorized by the Legislative Assembly for monies to be spent out of the Consolidated Revenue Fund. If the need for additional funds arises, the government has at least two further alternatives:

- It can use the contingencies vote which, although part of the annual appropriations, provides for additional expenditures where the expenditure depends on unanticipated occurrences.

- It can advise the Lieutenant Governor-in-Council to issue a Special Warrant which is allowed when a matter arises for which expenditures were not foreseen or sufficiently provided for in the Estimates, but are "urgently and immediately required for the public good" and the Legislative Assembly is not sitting.

During the current fiscal year, because the Legislative Assembly was in session for only a very brief period, a significant portion of expenditures has been authorized by Special Warrant.

D. Government practices

1. A number of organizational structures

Government organizes its activities in different ways to meet its various objectives. In the past, Crown corporations and agencies have been established as separate organizations because it was felt that this structure better suited their "modus operandi". The financial controls and accountability over this group of organizations is the subject of a separate report. However, closer to government, a variety of organizations exist which are outside the normal government ministry structure but over which differing levels of financial controls exist. These include:

- Societies, such as the B.C. Summer and Winter Games Society and the Year of Music Society, which have been established as separate entities under the B.C. Society Act.

- Foundations, such as the Discovery Foundation and the Terry Fox Foundation, which have been established for some very specific purpose(s) and usually with some non-government involvement.

- Commissions, such as the Utilities Commission, the Superannuation Commission and the Purchasing Commission, which have existed for many years to offer particular services.

Although they have been established for specific purposes in an organizational form best suited to meet their operational objectives, the framework of financial controls within which they operate has been unclear. The application of the Financial Administration Act and its accompanying Financial Administration Operating Policies has been somewhat narrowly confined to government ministries and related integral bodies (such as the Superannuation Commission and the Purchasing Commission). It has not always been clear as to the extent to which the Act and Policies have applied, if at all, to these other organizations. As a result, over the last several years, concerns have been expressed about the apparent lack of control in some of these organizations.

2. A number of different funding mechanisms

In addition to operating through different organizational structures, government also employs different funding mechanisms. As described above, the government is granted authority to spend money through annual appropriations, approved by The Supply Act. Funds approved in this way account for the vast majority (over 90%) of expenditures from the Consolidated Revenue Fund.

However, within the appropriations approved, a variety of mechanisms exist for advancing funds which tend to be confusing and, in some instances, may not allow for optimum financial control. These include special funds, special accounts, revolving funds and ten dollar votes.

- **Special Funds.** Special funds are separate accounting entities established for a specific, designated purpose. The use of special funds in British Columbia became popular in the 1970s and early 1980s when the then government determined to set funds aside for specific purposes; their transactions were financed through the Consolidated Revenue Fund but excluded from the government's reported revenues and expenditures in the General Fund (although they were separately reported). By the late 1980s there were a number of these funds in existence which were then moved into Special Accounts within the General Fund.

  In 1988 two new Special Funds were created: the Privatization Benefits Fund, for holding the net proceeds from the various privatization transactions, and the Budget Stabilization Fund, for stabilizing the operating revenues of government by transferring funds into and out of

the General Fund depending on the province's fiscal and economic circumstances. The Privatization Benefits Fund is still in existence; the Budget Stabilization Fund balance was transferred to the General Fund and the enabling legislation repealed on April 1, 1991.

The use of Special Funds has created a great deal of confusion in the mind of the general public: fund balances were assumed to be represented by liquid assets; the transactions through the fund were reported on separately; and the real state of government finances has been obscured by these funds being reported on as separate entities. Elsewhere we have recommended the elimination of these types of funding mechanisms and the need for minimum reporting by government to be on activities of the Consolidated Revenue Fund only. If implemented, this would eliminate one of the reasons for maintaining separate Special Funds.

- **Special Accounts.** Special Accounts are a relatively new phenomenon. Most of them were created in 1988 when existing Special Funds were converted to Special Accounts under the Special Accounts Appropriation and Control Act. As a result, a number of Special Accounts (e.g., the Lottery Fund) have some of the characteristics of Special Funds. Others have been established in subsequent years. Special Accounts form part of the General Fund and they provide statutory authority for specific expenditures. In some cases the provision of the statute which creates them reflects the terms and conditions of underlying contractual obligations, such as the Vancouver Island Gas Pipeline Assistance Account and the South Moresby Implementation Account.

  Many of the Special Accounts reflect the desire for visibility for political commitments to spend specified funds in future years (such as the Freedom to Move Special Account). Other Special Accounts are used as follows: to connect revenues and expenditures (such as the Small Business Forest Enterprise Special Account); to finance businesses or acquire assets (such as the Purchasing Commission Working Capital Account); or to fund operations (such as the Provincial Treasury or the Securities Commission) by allowing fee revenues to be used to offset expenditures.

  Special Accounts have proliferated in recent years. There is no apparent underlying framework or basis on which they are being measured and maintained. These accounts have also caused some confusion since it is felt that they are represented by liquid assets. However, other than as part of the General Fund balances to be set aside, the account balances are not represented by assets.

  Although Special Accounts have continuing expenditure authority, they are not always subject to the same controls as other expenditures. They may bypass normal approval processes. In the case of the Lottery Fund, for example, the Minister responsible for its administration has had

discretion over the nature and amount of grant funds. Therefore, the grants for which lottery funds have been disbursed have not had the same degree of Treasury Board scrutiny as other expenditures. The Lottery Grants Program is reviewed in Appendix B.

- **Revolving Funds.** Revolving funds are funds established to record the transactions of a continuing cycle of operations in which disbursements generate receipts and these are available for future disbursements without further authority.

  They have not been used to a large extent within the province but their use has allowed for increased flexibility in spending. Examples include the Industrial Development Subsidiary Agreement Revolving Fund and the Low Interest Loan Assistance Revolving Fund. These revolving funds became Special Accounts in 1988 and are no longer active.

- **Ten Dollar Votes.** Ten dollar votes and sub-votes are mechanisms used for funding operations where the costs will be fully recovered. Since such accounts have traditionally been voted upon in order to grant approval to the program, a nominal amount ($10) has been included in each vote. Examples of $10 votes include central services to other parts of government, such as the Queen's Printer, the Postal Services Branch, and Pensions and Employee Benefits Administration. The B.C. Utilities Commission is another example.

  Because the organizations which run on $10 votes can effectively spend as much as they receive, they are not subject to the same control regime as other voted expenditures. Although they cannot overspend the gross spending budget without Treasury Board approval, greater leniency is usually given to approving expenditures from these votes because these amounts will be fully recovered. There is some discipline over their operations, however, in that they are controlled by the amounts they can charge (although not the volume of activity they carry out).

This surfeit of funding mechanisms has created potential for inconsistent treatments in the allocation of funds and concern regarding the lack of control over activities carried out within them. In addition, there has been no real understanding of the rationale to support their continued existence.

3. Controls over expenditures

The Financial Administration Act provides that funds shall only be used for the purpose specified in the Estimates and that the amounts provided in the Estimates shall not be exceeded. The Act also states that there will be no commitments or undertakings given which would result in expenditures exceeding the appropriations.

Once the Estimates are approved the exercise of control takes place at the micro-level within ministries. With varying degrees of sophistication, ministries maintain

ongoing control over expenditures to ensure that the items for which the expenditures are being incurred are valid and authorized, and that funds are available to incur the expenditure.

In recent years, ministries have begun to better control expenditures at this level and have begun to track their commitments, which are probable obligations for which expenditures are likely to be incurred. In the questionnaire sent as part of this Financial Review, deputy ministers asserted that the level of financial controls over expenditures was in the "sound" to "very sound" range across all ministries. Ministries rarely overspend their original allocation of funds.

Most of the micro-level control by ministries which take place in fact, covers only a small proportion of total expenditures, since most ministry budgets are either payroll or third party grants and contributions. Payroll is subject to normal central and local control procedures and raises no major control concerns other than those surrounding the total FTE complement. Third party grants and contributions are also not subject to any major level of scrutiny other than initial verification of claims and/or eligibility. Since grants and contributions represent over two-thirds of total government spending it may seem more appropriate to ensure adequate financial control is exercised by the recipient.

The small amount of discretionary spending which is available to ministries has frequently been subject to the least amount of control towards fiscal year-end: any unused or uncommitted funds have frequently been diverted for other requirements in order to consume the full budget allocation. This was less of an issue in 1990/91 because Treasury Board issued a directive (4/91) which effectively froze discretionary spending for most of the balance of the year. However, it was a fairly common practice prior to that time.

4. Controls over revenues

The Financial Administration Act provides that revenues are to be properly controlled. Little distinction is drawn between the various revenue and recovery sources within the Financial Administration Operating Policies which support the Act. Tax revenues come from a small number of sources which produce significant revenues. They are received primarily by three ministries: Finance and Corporate Relations; Energy, Mines and Petroleum Resources; and Forests. Other revenues come from a variety of sources, including 2,600 different fees and licences which exist in a number of ministries and are generally less well controlled than many tax revenues. In the questionnaire sent as part of this Financial Review, some deputy ministers indicated that the level of control over revenue was not as sound as it should be.

Little interest has been expressed in the past in developing control frameworks which maximize revenues: there are inadequate information systems to track and record amounts due; insufficient resources are devoted to the revenue function; and, sometimes, inappropriate organization structures have been developed which may impede an effective revenue control framework.

5. Controls over assets

The government only accounts for its financial assets: cash and equivalents to cash such as accounts receivable, inventories and loans. Other reports prepared as part of this review have indicated concerns over the collection process for accounts receivable and in the loan granting process. As those reports indicate, these assets have not been subject to the same degree of scrutiny, checking and follow-up as have expenditures.

In addition to its financial assets, the government also incurs significant expenditures on physical assets including computer systems, equipment, vehicles and furniture. In accordance with its stated accounting policies, the government does not capitalize these assets but, instead, writes them off as they are purchased. There is little incentive therefore for ministries to track their assets although most of them have a life longer than one year and it is not always evident that assets are being replaced or added only when they are most needed.

Many ministries do not keep track of their assets and for a number of those ministries which do maintain some form of inventory, they are frequently out of date and incomplete. Physical asset management and control is not perceived as a high priority by most ministries.

6. Financial systems

Most ministries operate a number of financial systems for collecting and reporting financial information. At one point, it was estimated that there were over 150 separate significant financial systems in government. This includes the central systems for recording payments, controlling voted expenditures, and maintaining various files; the ministry interfaces to the central systems (such as the Gain System, the Government Agent's System and various other ministry systems); and the various independent systems within ministries used for gathering financial data (such as separate revenue systems).

Most of these systems run on different hardware. For example, at one time after a reorganization, the Purchasing Commission was using 13 different financial systems which ran on 7 different hardware platforms. Also, most of these systems do not "talk" to each other and, as a result, there is a great deal of duplication of data and a significant effort is frequently required in reconciling information between systems. For example, there are frequently tens of millions of dollars in differences between the central accounting systems and ministry interfaces; these unreconciled balances are often left for months on end before being reconciled.

E. Findings and recommendations

It is clear from the above summary of government policies and practices that there is a legal and policy framework for establishing sound financial control. However, what exists is an array of organizational forms, subject potentially to different rules, with

different funding mechanisms, and differing levels of financial control applicable to each. In addition, the control focus is most apparent in the expenditure area with less attention paid to revenues and assets. It is unsurprising therefore, that some dysfunction exists within the framework. Specific findings were noted in a number of areas which are set out below.

1. Overall control structure

There has been a reasonable control structure in place with the powers and duties of Treasury Board, the Minister of Finance and Corporate Relations, and the Comptroller General clearly set out in the Financial Administration Act. The duties and responsibilities of Ministry financial officers are also well articulated in the Financial Administration Operating Policies. We have concluded, however, that there are two fundamental prerequisites missing from the control structure within the government:

- An effective accountability model.
- Recognition of improved ways to exercise financial control.

Accountability Model. The accountability of ministries, Crown corporations and agencies to Treasury Board can be improved. We have noted examples where effective monitoring has not taken place; these include the following:

- Importance is too frequently directed to many small submissions with insignificant financial implications, to the potential detriment of spending adequate time on larger issues.
- Inadequate scrutiny and control of loans granted.
- Ineffective monitoring of amounts due to the government.
- Insufficient knowledge of Crown corporation financial performance.
- An incomplete understanding of program outputs and the implications of adopting different delivery systems.

Ministers are ultimately accountable to the Legislative Assembly for the actions of their ministry or Crown corporations, but unless Treasury Board has responsibility for effectively monitoring ministry or agency activity, a clear link in the accountability chain is missing. Clearly, Treasury Board requires this responsibility to be confirmed if rigorous financial management is to ensue.

An accountability model is required which:

- Allows ministries, Crown corporations and agencies to manage their day-to-day financial affairs without undue interference, since we support the need to empower public sector managers to provide ongoing management of their affairs.

- Demands greater accountability of those entities through the development of measurable output targets and performance indicators.

- Provides for Treasury Board staff to conduct evaluation of government programs and for Office of the Comptroller General staff or appointed agents to conduct compliance and value-for-money audits of ministries, Crown corporations and of government programs and activities.

- Requires the results of these evaluations and audits to be reported back to Treasury Board.

- Produces timely reports on the activities of ministries and Crown corporations to Treasury Board and to the Legislative Assembly on results.

Such a model would confirm the role of Treasury Board and, through the proposed reporting mechanism, ensure that appropriate corrective action is taken. One potential evaluation framework which might be employed is that which has been proposed by the Canadian Comprehensive Audit Foundation for measuring an organization's effectiveness. In this model:

- Treasury Board staff would evaluate new programs for clear policy objectives and establish an appropriate evaluation structure.

- Ministry management would provide representations on measures of effectiveness which were achieved.

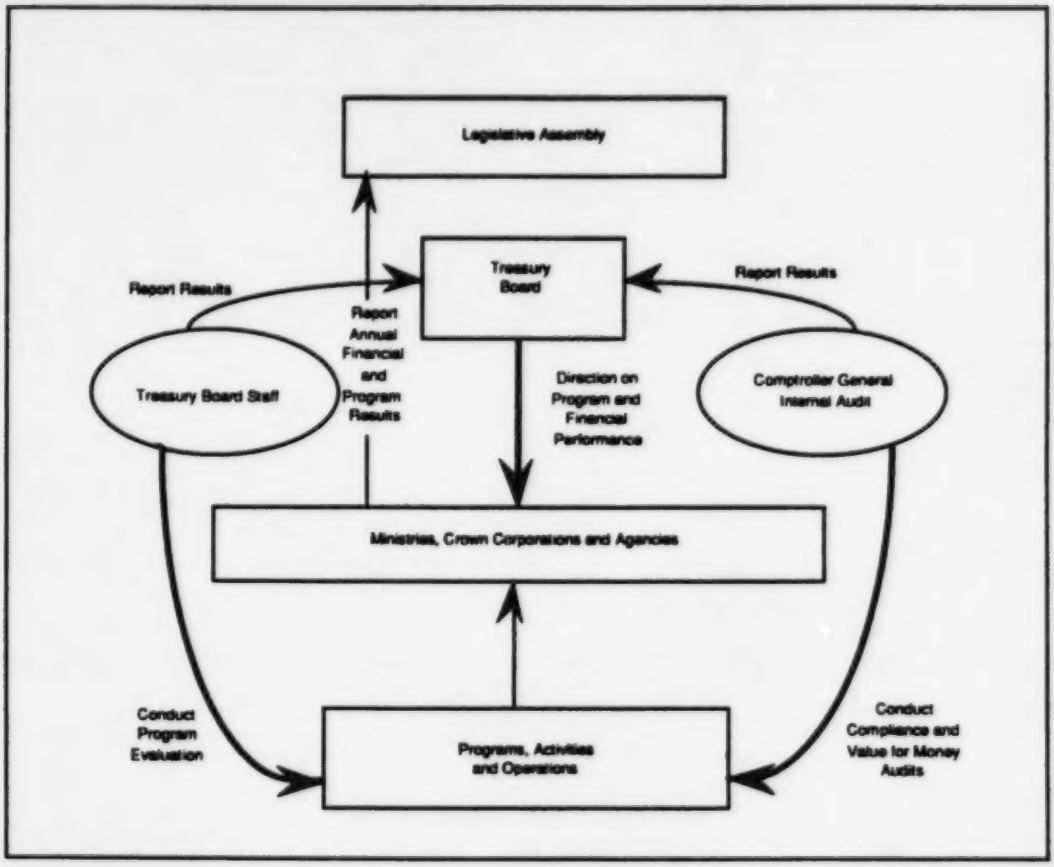
- The Comptroller General could conduct audits which would include an assessment of the outputs delivered.

- Treasury Board staff would assess the impacts and the outcomes of the program.

We have illustrated a proposed model in graphic form in Exhibit I. Clearly, this represents an internal model; we have not commented upon the external role performed by the Auditor General in carrying out his duties in accordance with The Auditor General Act, in reporting to the Legislative Assembly.

Improved Ways to Exercise Financial Control. In order to achieve effective financial control there must be recognition that it may no longer be appropriate to rely on old processes and procedures; there could be better ways of achieving improved financial control.

Exhibit I
Proposed accountability model



A great deal of effort is still expended on controlling the minutiae of government financial controls; for example, the time incurred on the pre-audit of many invoices prior to processing them and the effort expended on controlling movements of FTEs (or parts of FTEs). There is no equivalent effort spent in assessing whether the financial function could be made more efficient by changing the tasks to be performed (e.g. to a post-audit function), by improving the delivery systems, or by removing some of the burdensome procedural requirements which many ministries undertake. Frequently, in a number of ministries, significant time is spent on some of these tasks because the level of financial expertise, especially in decentralized locations, is limited. This has the effect of perpetuating inefficient practices and relying on well established procedures, regardless of merit.

There should be:

- A recognition that it may cost more money in the short term to achieve greater financial control, improved value-for-money, and more effective control over spending in the near term.

- An understanding of the importance of the financial function, especially in highly devolved and decentralized organizations.

Recommendations

- Ultimately, ministries and Crown corporations are accountable through their minister to the Legislative Assembly. A control framework should be developed which provides for appropriate, direct accountability to the Treasury Board and the Legislative Assembly with minimum overlap. This calls for:

  - Internal audits conducted and coordinated by Internal Audit Branch, Office of the Comptroller General. These audits would be audits of systems and compliance with financial policy and value-for-money audits carried out in all ministries, Crown corporations and agencies. Such value-for-money audits would include an assessment of how well the organization had met its desired outputs and other measures of effectiveness.

  - Evaluations of new programs and an assessment of outcomes conducted by Treasury Board staff.

  - The results of these audits and evaluations reported to Treasury Board.

- All internal audit activity for ministries and Crown corporations, except for significant commercial Crown enterprises, should be coordinated through the Internal Audit Branch, Office of the Comptroller General. Similarly, all evaluation activity should be coordinated through Treasury Board staff. Bi-annual audit and evaluation plans should be submitted through and approved by Treasury Board.

- The primary reports presented to the Legislative Assembly should continue, but they should each incorporate the full extent of the government's activities:

  - The Estimates should include the proposed operating plans of Crown corporations and agencies which are essentially governmental in nature, as well as of ministries.

- The Public Accounts should show a comparison between actual and estimated performance for the complete, government reporting entity.

➤ The framework that we envisage would therefore report the actual results of all government activity (which would incorporate Crown corporations and agencies) in the Public Accounts on a consistent basis with planned results within the annual Estimates.

➤ Ministries and Crown corporations should continue to submit annual reports to the Legislative Assembly. The reports should, however, be expanded to incorporate information on financial and operational performance. Specifically, they should contain appropriate performance measures (outputs, measures of effectiveness, etc.) which have been audited. The report should be tabled by the end of the calendar year of the fiscal year reported on; eventually it should aim to be tabled within 120 days of the year-end.

➤ Stronger functional links should be established between the Comptroller General and the Chief Financial Officers of each Ministry and Crown corporation, such that appropriate direction can be given with respect to the application of financial controls. To be effective such a linkage and the desire to more effectively enforce policy should be endorsed by Treasury Board.

➤ The Comptroller General should be in regular attendance at Treasury Board meetings to provide input on the financial accounting and legislative implications of proposed spending decisions.

2. Funding Mechanisms

Based upon our review there would appear to be three basic flaws in the existing funding process which have resulted in poor financial control:

➤ The plethora of funding mechanisms has led to inconsistent levels of scrutiny and control.

➤ The budget setting process has lacked a strategic framework and vigour: once budgets have been set, the programs or activities have not been subject to sufficient monitoring to determine how the funds were spent.

➤ The fear of weakening legislative control has given rise to a reluctance to depart from traditional funding practices. However, improved financial control does not necessarily mean greater control exercised at the centre and by the Legislative Assembly.

Funding mechanisms. A number of areas have not been subject to adequate control. A prime example is the Lottery Fund, which has been excluded from normal Treasury Board scrutiny and approvals. Further information on the Lottery Fund is contained in Appendix B.

Concerns have also been expressed over time with respect to the adequacy of the level of financial controls in other areas. These have included societies (e.g., Year of Music Society), foundations (e.g., Terry Fox Foundation), and some Special Accounts (e.g., Corrections Work Program and the Purchasing Capital Working Capital Account). Moreover, statutory appropriations have not been estimated with any degree of rigour, nor have these amounts always been fully disclosed to the Legislative Assembly. Finally, the Contingencies Vote has not always been restricted to an estimate of real contingencies.

Budgets. The budgetary process is ineffectual. Budgets have typically been prepared on the basis of taking a proportion of the prior year's allocation, adjusted for inflation or increases in demand. When ministries are asked by Treasury Board to determine the effects of a percentage cut in their budget and provide possible candidates for cut-backs, a common response is to provide as candidates those programs which are politically sensitive or very popular, and, therefore, reduce the likelihood of action being taken to reduce or cut them.

Once programs are established they appear to take on a life of their own. The effectiveness of a program is rarely evaluated and when it is, there is difficulty in concluding that the assessment is objective because it is invariably carried out under the auspices of the program area being reviewed. The focus has traditionally been on inputs and insufficient attention has been given to outputs.

Legislative approval. Although legislative approval for the spending of money from the public purse should remain sacrosanct, there should be a recognition that strict adherence to past rules and requirements has provided too rigid a structure for carrying on a modern $16 billion enterprise. Instead, such rules and requirements have necessitated resources being deployed to determine new mechanisms or ways in which greater flexibility could be provided in certain government operations. All government operations do not fit neatly into a one year fiscal timeframe (e.g., construction of a major highway or the recovery of funds for all government vehicles).

What becomes necessary is a model which ensures all funds required are visible to, and approved in some way, by the Legislative Assembly. However, there should be some recognition of the need for some proportion of unspent funds to be carried forward to a subsequent year and some allowance for a proportion of revenues to be offset against expenditures. This enhanced visibility, coupled with flexibility, can enhance rather than detract from control, provided the necessary safeguards are in place.

Recommendations:

- The various funding mechanisms in place should be critically examined and, to the extent possible, those other than voted appropriations should be eliminated. In particular, consideration should be given to the following:

    - Special Funds do not appear to have a strong justification for continued existence,

    - Only those Special Accounts which are deemed necessary for separate operating agencies or enterprise centres should be retained. For those, the rationale for their continuation should be formally evaluated on a regular basis (possibly through the use of sunset clauses in the enabling legislation). Moreover, their activities and funding arrangements should be highly visible.

    - Where statutory appropriations continue to exist, a reasonable estimate should be made of all of the necessary funding requirements and the reasons for this requirement (for example, by basing it on the more likely annual expenditure, given historical experience and current events). Such amount should be fully disclosed in the Estimates.

    - Existing ten dollar votes and sub-votes should be reviewed with a view to confirming that their original purpose is still valid and that adequate control is exercised over them.

    - The use to which the Contingencies Vote is put should be evaluated and restricted to unanticipated events which cannot be estimated prior to the beginning of the fiscal year.

    - An annual statement of Special Warrants and an explanation of their urgency should be prepared and incorporated in the Public Accounts.

    - Although not previously used in British Columbia, consideration should be given to using supplementary estimates for many of the expenditures for which the Contingencies Vote or Special Warrants have typically been used, such as for supplementing existing programs, for new programs, or for unforeseen expenditures.

- Budgets should be set within an appropriate strategic framework where they are tied to program goals and demonstrable objectives. Although top-down direction is important, it is equally critical for line managers to justify their funding requirements based upon proposed

accomplishments and measurable targets. Multi-year budgets should be prepared (say, for three years) and updated on an annual basis.

- Some amount of the annual budget, say, perhaps 3% of the operating expenditures and 5% of capital expenditures, should be allowed to be carried forward, with appropriate safeguards, until the following fiscal year.

- Multi-year budgets and multi-year funding mechanisms should be considered for major projects, where Treasury Board considers such approval to be in the economic interest of the province and other appropriate safeguards can be instituted.

- The rationale for some of the existing central controls (e.g., FTE controls) should be assessed and, if they are no longer a necessary part of the control/accountability framework, they should be eliminated. Greater emphasis should be place on proposed outputs, rather than inputs.

3. Ministry financial controls over expenditures

Within the normal ministry organization operating with the standard votes, controls over expenditures have generally been effective in preventing overspending. Our review of ministry internal audit reports, consultant reports and Auditor General management letters and reports found little evidence of overspending or ministries requiring additional funding. However, a number of other concerns were identified which had some common themes across government:

- In a number of ministries, financial information is inadequate to either provide an accurate, up-to-date picture of financial position or to identify all of a ministry's commitments and lurking expenditures.

- Inadequate sanctions are in place to adequately penalize managers for poor budget management. Ministries typically do not overspend in total because a portion of funds is withheld by the "centre" to reallocate close to the year-end, when some managers are likely to overspend their own budgets.

- Within the control framework established by Treasury Board, there is widespread evidence of a lack of understanding by public servants with respect to their responsibilities as defined by the Financial Administration Operating Policy Manual. Although the Office of the Comptroller General has successfully sponsored government-wide financial management and control training, there are still a number of problems evident: incorrect or out-of-date payment and spending authorities for approval of receipt of goods and services; clerical and other errors in invoices which are not always picked up; approvals being

made for payment when services had not been fully or appropriately delivered.

- A number of people with financial management responsibilities are not suitably qualified. Furthermore, there is a general lack of understanding by ministry personnel as to their financial management and control responsibilities. This has been exacerbated by the increasing decentralization of ministry activity.

- In times of fiscal constraint, inadequate resources have been applied to maintaining the financial function at a level commensurate with the increased risk and responsibility.

- Particular weaknesses have been evident in a key spending area: contract administration. The level of contracts for goods and services has increased significantly in recent years, but the level of appropriate contract management and administration is not always adequate. Frequently, there are no formal procedures in place for administering contracts; staff without delegated authority have signed contracts; and payments have frequently been made prior to the delivery of satisfactory services.

- Significant funds are being incurred in new computer systems under development (not just financial systems). Although the broader issue of government-wide strategic systems is the subject of a separate paper, there have been some evident weaknesses in the system development process. New computer systems have been identified as one way to increase efficiency in program delivery but there have been control deficiencies apparent in system development:

  - "Ad hoc" systems have been developed which do not conform to a corporate strategy.

  - Data are duplicated because of a lack of coordination.

  - Systems are developed using custom-made software as opposed to applying off-the-shelf solutions, resulting in greater cost and frequently not fulfilling the detailed user specifications.

  The level of control exercised over the costs and development of new or enhanced computer systems has not always been adequate and there has appeared to be an under-appreciation of the future consequences of systems decisions.

Recommendations

- The Chief Financial Officer in each ministry should be suitably qualified and at an appropriate level to assist in all major financial decisions of the organization.

- Appropriately qualified and classified financial officers should exist in all major program areas. The delegation of authority is now so devolved that it is critical that properly trained and qualified personnel are in place across all ministries.

- Controls over certain key spending areas, such as new systems' development, should be subject both to rigorous business case analysis (and post-implementation scrutiny), as well as to an analysis as to how the proposed system fits within any government-wide strategic systems' framework.

4. Ministry controls over revenues and assets

Controls over revenues have generally not been strong. The thrust of the financial control framework is towards managing expenditures, with the result that expenditures necessary to maximize or adequately control revenues have not been seen as a high priority.

As described in a separate paper on Revenues, Recoveries and Transfers, insufficient attention is paid to the establishment, assessment and collection of revenues. There is no concerted focus on the management of revenue either government-wide or even within a number of ministries. Our reviews have determined that insufficient attention has been paid to the management and control of revenues. In particular:

- There appears to be a lack of adequate sanctions with respect to the non-payment of outstanding debts due to the province. This is a widespread phenomenon resulting in:

  - The non-collection of taxes and other charges which have been outstanding for many years.

  - The increase in prescribed debts (amounts due to the province which can no longer be pursued because of a time limitation).

  - A significant increase in non-collected student loans.

  - Inefficient collection of fines and penalties.

- An increasing amount of fraud with respect to income assistance and family maintenance with a concomitant decrease in resources devoted to pursuing these abuses.

This has tended to reinforce poor behaviour both within government and generally in society, but more particularly sets a trend toward less taxpayer equity.

➤ Public servants have not recognized the importance of revenue maximization because they perceive they are frequently penalized for attempting to improve the process. Examples have been noted of inadequate resources applied to revenue because of the need to constrain resources, insufficient time devoted to revenues in the budget development process by ministries, and a lack of understanding of the need for more robust revenue tracking and collection systems.

There is a pervasive culture which observes little benefit to maximizing revenues since ministries do not receive any obvious, direct benefit for revenue assessment and collection. Instead, public servants perceive they are penalized. With the focus on FTE controls, any new resources requested for revenues have had to come from program resources and since most revenues go into the Consolidated Revenue Fund instead of directly assisting in expanding Ministry expenditure budgets, there has been a lack of enthusiasm directed to this area. There is some evidence to suggest that those operational areas which rely on fee revenue for offsetting expenditures directly pay more attention to revenues, since additional revenues allow them to increase levels of service, which means increased expenditures.

➤ There has been a tendency to consider every fee increase an increase in taxes. This has resulted in inadequate monitoring of fees to ensure that all, or a significant portion of, the cost of rendering the service is considered in setting the fee. It has also sometimes resulted in poor controls over the product or service for which a fee is charged. It is important to recognize that a fee for service is not a tax, but it is simply an attempt to recover some of the cost of rendering a specific service. There needs to be a recognition that costs relate directly to the value of the service provided.

Furthermore, controls over physical assets have not always been adequate. Because ministries are not required to account for physical assets, other than as expenditures, there has been no concerted effort to keep track of these assets. Those asset systems which are maintained are frequently out of date or incomplete.

Recommendations

- Greater recognition should be given to the government's commitment to revenue assessment and collection. In particular, the full cost of delivering services which may be subject to a fee should be considered in setting fee rates; a fee for service is not, and should not be considered a tax rate increase. Moreover, consideration should be given to establishing appropriate incentives/sanctions at the ministry level and improving public communication with respect to the implication of non-payment of debts to the province.

- Staffing for revenue functions should be increased where there is significant marginal return to government.

- Asset management systems should be introduced which will manage the details of all physical assets (e.g., type of asset, location, date of acquisition, cost) and maintain the database.

5. Financial systems

A significant amount of resource has been incurred in developing financial systems for ministries. Over the last ten years all ministries have introduced at least one major financial system to capture all of the expenditure transactions. This was initiated by the move to decentralize financial systems within government. The systems developed have not always provided effective financial information and control because they have too frequently been seen as a panacea when, in some instances, the ministry culture rather than the system needed to change. In addition, there have been significant problems in reconciling information produced by these systems with those of the Office of the Comptroller General. Because of these many problems, a government-wide solution was proposed in 1989 by the Government Accounting System Strategic Plan Task Force. This issue is discussed further in Appendix A.

Recommendation

- Priority should be given to implementing the recommendations of the Government Accounting System Strategic Plan (GASSP) Task Force. This will entail an orderly transition to a government-wide core financial system. It is important, however, that the needs of the users of this system are constantly monitored and revisited; in the three years since the Task Force concluded its report, technology has changed and the requirements of users have been enhanced, albeit the basic requirements have remained the same. In particular, requirements for output information are likely to increase, and there will still be a need to ensure that all information required for timely and accurate reports by the central agencies (such as ongoing commitment and accrual information) is properly and uniformly captured by ministries. In addition, the central agency requirements for financial information from Crown corporations and agencies will need to be assessed.

Appendix A
Government Accounting System Strategic Plan (GASSP)

A. Background

With the introduction of the Financial Administration Act in 1982 and subsequent Financial Administration Policies, ministries were given clearer responsibility for financial management and control. Along with this responsibility came the need for timely and accurate flow of relevant financial information. It was soon realized, however, that the traditional centralized financial system could not meet the information needs of all ministries, and, without this basis of information, the lines of financial accountability would remain blurred. As a result, the Office of the Comptroller General (OCG) began a process of decentralizing financial systems while retaining functional responsibility for financial management throughout government.

By 1989, the process of decentralization had resulted in a proliferation of different accounting systems throughout line ministries and a number of very serious questions had been raised:

- Was diversification consistent with the reality of periodic reorganizations in government structures?
- Is decentralization of the choice of accounting systems cost-effective?
- Does each Ministry need to re-evaluate all system options every time they consider implementing a new accounting system?
- Are all the "bells and whistles" included in some systems truly necessary or simply "nice things to have"?

To address these concerns, in late 1988 the Ministry of Finance and Corporate Relations established a Task Force to set a strategic direction for accounting systems acquisition—one that recognized both the systems and accounting environment and the management responsibilities of line ministries and central agencies.

In February 1989, the GASSP Task Force issued its final report and recommended the development of a common core accounting system for use by all government ministries. The justifications for this recommendation were:

- While ministry activities are different, their financial reporting needs are similar.
- Government reorganizations are likely to be a continuing reality.
- Data integrity and security are critical to government-wide financial management.
- The cost-effectiveness of a single core solution was compelling. The costs of acquisition, maintenance and training for a single system were seen to be much less than for many individual systems.
- Ministry responsibility for data accuracy could still be retained in this environment.

As a result of the Task Force report, the GASSP Project was initiated in April 1989, the core accounting system was selected in August 1990, and implementation of the **Corporate Accounting System** is now scheduled for April 1992 for three pilot ministries.

Costs and benefits

The business case shows a requirement for 1990/91 funding of $2,535,000 and 1991/92 funding of $4,065,000 to implement a pilot program for GASSP and to operate the new system for 1991/92. The business case indicated that in the absence of a GASSP solution, funding requests for new accounting systems would be greater (in excess of $7 million) over the same period of time.

In addition, there were a number of benefits identified for the new Corporate Accounting System, which were:

- Eliminates multiple databases and reconciliations.
- Provides a coordinated training program rather than the fragmented training effort that exists.
- Reduces the costs of ministry reorganizations to accommodate the accounting and financial requirements.
- Controls the costs of software maintenance.
- Requires fewer consulting dollars to modify systems because of procedural changes and central agency needs.
- Offers a high level of security to the government financial and accounting information.

- Allows the OCG to verify ministry adherence to voted appropriations.
- Improve the accuracy and timeliness of financial reports.

The business case projected the present value of the GASSP implementation costs to be $28 million over the full ten-year implementation period, and the projected present value of savings from the implementation to be $32 million for a net savings of $4 million. In addition to the hard dollar savings, the business case listed twelve other areas where savings will be realized but which could not easily be quantified.

While the project will require significant funding to fully implement, studies show that those costs will be exceeded by real savings and benefits which are very likely to be realized.

B. Impact on financial management and control

While the overriding justification for GASSP was the control of system costs, it was recognized that GASSP would also offer opportunities for improvements in financial management and control.

1. Timeliness of information

In the current environment, accounting transactions are initiated either by a Ministry or by a central agency (usually the Ministry of Finance). Transactions initiated by a ministry are initially recorded in a ministry's accounting system and then electronically transmitted to the OCG for entry to the Central Accounting System (and vice-versa for transactions initiated at the OCG). The timeliness of financial information is impacted by the speed at which transactions are passed between the Central Accounting System and ministry accounting systems. Problems in the transmission of accounting information between systems can also result in data errors and omissions.

In addition, there is a need for ministries to capture commitments and "lurking expenditures" on a consistent and timely basis. As well, an ongoing assessment of accrued revenues and expenditures is an essential ingredient of effective financial management. This will be facilitated by a corporate accounting system.

The recording of accounting transactions only once at source will reduce data redundancy, improve the timeliness of financial information, and reduce the risk of transmission errors and omissions.

2. Consistency of financial information

To establish the financial results of a ministry, ministry management will utilize financial reports prepared from the ministry accounting system while central agency

staff will utilize reports prepared from the Central Accounting System. Due to timing differences and accounting errors and omissions, it is unlikely that these reports will present exactly the same results.

Under the Corporate Accounting System, every financial report will be generated upon the same accounting data, ensuring the consistency of financial reports for all users.

3. Reduce the reconciliation effort

The existence of both the Central Accounting System and ministry accounting systems requires ongoing reconciliations to be performed, consuming a significant amount of staff resources. It is estimated that up to 25% of staff resources in government accounting is spent in the interfacing and reconciliation of the parallel accounting systems.

A common, corporate database will eliminate the need for reconciliations between ministry accounting systems and the Central Accounting System.

4. Enhance consolidated financial information

Ministry accounting systems are the predominant mechanism for the financial management of the provincial budget. Most of the ministry accounting systems now include some form of commitment accounting which is a critical measure for ensuring that ministries adhere to their voted allocations. Thus, a ministry accounting system can report on actual expenditures and commitments to expend, and can compare the total of these amounts to the budget allocations and identify the remaining available funds. The Central Accounting System contains no commitment accounting function and is limited to reporting on only actual expenditures made.

Under the new Corporate Accounting System, a commitment accounting module will permit central agencies to obtain consolidated financial information that includes both actual expenditure and commitment transactions.

5. Enhance ministry financial management

The Walker accounting system has been chosen as the **Corporate Accounting System.** The functionality of this system is an improvement to the systems currently being used by a number of ministries. Ministries will be better able to capture commitment information and provide ongoing reports of accruals for more effective financial management. The Ministry of Government Services indicated that the Walker system will provide better edit and validation controls over data entry and that it will store more comprehensive data to enhance the financial reporting function. The Ministry of Labour and Consumer Affairs indicated that the Walker system will allow them to move away from their centralized, PC-based

system, with the opportunity of enhancing access security and permitting decentralized access to financial reports by Branch management.

The Corporate Accounting System will offer enhanced functionality to some ministries.

C. Conclusion

The existing financial management environment contains inherent risks that financial information will not be timely, complete or accurate. These risks will be reduced with the full implementation of the Corporate Accounting System being developed by the GASSP Project. It is important, however, that the needs of the users of this system are continually monitored and revisited. In the three years since the Task Force concluded its report, technology has changed and the requirement of users have been enhanced (for such things as performance measurement information).

Appendix B

British Columbia Lottery Grants Program

A. Description

1. Mandate

The Lottery Grants Program has a very broad mandate: The Lottery Act specifies that proceeds from the conduct of lotteries in the Province:

> *"may be paid out for cultural or recreational purposes or for preserving the cultural heritage of the Province or for any other purpose, the Minister considers to be in the public interest."*

Thus, since the 1970s lotteries funds have been used to make a contribution to improving the quality of life in British Columbia by supporting a wide range of community projects and organizations. As such, grants have regularly been awarded for health, environmental, cultural and recreational initiatives, as well as for community improvement projects.

2. Size of organization

Within the Lotteries Grant Program, there are twelve staff and one supervisor. Of note is the ratio of staff: six analysts to six clerks. This, we are told, is because the operation is extremely paper-intensive.

Beyond this, and because of the direct and indirect relationships with other Ministries, it is difficult to define the full extent of lotteries-related operations.

The size of the fund, based on 1991/92 estimates, is illustrated in Exhibit I.

Exhibit I
Size of fund

Total Account Balance at beginning of fiscal year		$158,011,189
Operating Transactions		
Revenue	$202,500,000	
Expenditure		
- Administration Costs	(948,005)	
- Grants and Related Expenditures	(119,051,995)	
Net Revenue	$82,500,000	$82,500,000
Total Account Balance at the end of the fiscal year		$240,511,189

We note the following points:

- There is a $158 million positive account balance at the beginning of the fiscal year. Since the Lottery Fund is part of the Consolidated Revenue Fund, this amount is not on hand, but rather has served to fund the government's historic deficit. It may, therefore, be more appropriate to write off this opening balance and reflect the true financial position of the fund—that is, a zero balance.

- Of the $202 million raised through lottery activities, only $120 million, or 59% is actually applied to disbursements of the Lottery Fund. (The difference, as noted above, is designated as a "surplus", but in fact funds the deficit.) The issue at hand then is should 59% be continued? We suggest that government policy on this "payout" ratio should be consciously established.

3. Legal basis

The legal basis for the Lottery Grants Programs is derived in the Lottery Act, Chapter 249. The Lottery Act gives the Minister (previously the Provincial Secretary and now the Minister of Government Services) broad discretion over the nature and amount of expenditures from the Lottery Fund.

We suggest that this broad discretion should be reviewed, in light of the need for improved public accountability and consistency in establishing priorities for government funding.

The Lottery Fund is a Special Account within the General Fund.

4. Subsidiaries

While there are no defined subsidiaries of the lottery grant program, the division does delegate responsibilities and authorities to other entities. The Minister, as per the Act, must retain responsibility for the final authority as to what constitutes a valid lottery payment. This covers all lottery grant programs. The actual administration of certain programs, however, has been delegated to other ministries and agencies.

For example, health research grants are handled by the British Columbia Health Care Research Foundation and funding to the film industry is administered through the Film Development Society of British Columbia ("B.C. Film"). Grants for culture, recreation, sport, downtown revitalization and heritage programs are handled by Municipal Affairs, Recreation and Housing, although the administration of most heritage grants is delegated to the British Columbia Heritage Trust. Municipal downtown revitalization projects are handled through a Ministry-controlled society.

Exhibit II, summarizes the distribution of accountabilities assigned to various entities, for the 1988/1989 fiscal year.

Exhibit II
Distribution of accountabilities assigned to various entities

	$ millions	%
Provincial Secretary	32.4	39
Municipal Affairs, Recreation and Housing	24.6	30
B.C. Health Care Research Foundation	10.5	13
B.C. Film	8.5	10
Downtown Revitalization	5.0	6
B.C. Heritage Trust	2.1	2
	83.1	100

These authorities are delegated formally, by annual letter from the Minister of Government Services. In this letter, specific individuals within the delegated Ministries are assigned progressive spending authorities. For example:

- Up to and including $5,000; program directors and managers.
- Up to and including $50,000; Assistant Deputy Ministers or Executive Directors.
- Full spending authority; Deputy Minister.

5. Recent history

The Lottery Fund has undergone considerable scrutiny in the past few years. This includes an investigation by the Comptroller General's Office of specific grants that were considered irregular and a scheduled audit by the Auditor General of controls and practices in the management of grants paid by the Lottery Fund.

These reviews have surfaced a number of general concerns and specifically uncovered:

- An undisclosed non-arm's-length relationship between the Minister at the time and third party suppliers.
- The fact that Science World, a large, complex project, was funded without a formal agreement.
- A case in 1987 in which a commitment to pay $500,000 with a revised cost of $660,020 for production of a promotional video, which included documented analysis to determine if the cost was reasonable but did not include comprehensive terms and conditions of performance.
- The Year of Music project, with an original budget of $12 million, but which was then subject to a dramatic increase in costs, with final costs exceeding $20 million.

Since these reviews, we understand that many steps have been taken to formalize practices and improve accountability and controls. Our own review confirmed that great strides have been taken to improve controls. Nonetheless, we understand that controls over grants to various sports and recreation programs have been determined by the Office of the Comptroller General to be inadequate. These grants are funded by the Lottery Grant Program but are administered by the Ministry of Municipal Affairs, Recreation and Housing. No estimate of the potential losses has been made and the Ministry is in the process of responding to the report.

6. Reporting and accountability

Historically, the Lottery Fund has had little in the way of formal reporting and accountability to established government structures, or to the public.

We understand, for example, that the one page "Approved Lottery Fund Budget 1991-92" is the extent of the formal budget report. Furthermore, 1990/91 was the first year in which there was a public accounting (i.e. listing) of all disbursements made by the fund. Ministries and agencies with delegated authorities are only now being mandated to similarly report on their disbursements.

We would suggest, then, that there has been a "multi-layer shield" with respect to public reporting and accountability of the Lottery Fund and its designates. Even the listing of disbursements in its current state provides limited information as it discloses only the name of recipient organizations and the amount disbursed.

We suggest that a more traditional annual report be prepared—one that addresses the "big picture" and includes, for example, an assessment of the overall success of the program in achieving its defined program and fiscal mandates.

7. Financial controls

The Lottery Fund is specifically excluded, by government management policy, from expenditure restrictions and approval and reporting requirements set by Treasury Board under the Financial Administration Act. This, we believe, is a critical policy issue that historically has allowed considerable leeway in interpretation and control of the application of Lottery Funds.

It should be noted that this exemption from the key vehicle for fiscal control—Treasury Board—does not obviate the appropriate moral responsibility to demonstrate that the grant approval process promotes equitable distribution of funds and there is a consistent treatment of all applications.

Thus, while no doubt desirous of ensuring fair and consistent access and use of funds, the Minister does not have the traditional and experienced vehicle to support this responsibility.

Therefore, we suggest that some steps be taken to bring the Lotteries Fund within the traditional structures established for review and monitoring of voted expenditures.

B. Activities and outputs

1. Major programs and clients

Exhibit III, indicates the approved Lottery Fund Budget, 1991-1992. As such, it reveals, on a high level, the major programs and "clients" of the Lottery Fund.

In the following paragraphs we briefly summarize the focus of some of these line items.

1. Recreation and culture **$27,100,000**

This fund provides support of cultural activities through grants to professional non-profit arts organizations, regional and community arts councils, art students, publishers and film makers. On the recreation side, funds are provided to organizations for activities such as skills development for coaching, athlete training and officiating, administering scholarships for athletes, team development support for Canada Games and other recreation and sports-related activities.

2. Downtown Revitalization **$3,000,000**

This fund is intended to foster joint efforts by merchants, municipal councils and the province towards improving the physical and promotional presence of downtown areas in communities throughout British Columbia. It provides grants and loans to municipalities and property owners in four major areas: downtown revitalization, village square program, business improvement area grants, and transmission line undergrounding grants.

3. B.C. Film **$5,000,000**

This agency is a private, non-profit society created at arm's length from government. Created by Cabinet in 1987 it promotes artistic and economic development in the art-based industries of film and video production. The program is known to have made an important contribution in transforming British Columbia into the third largest film centre (after Hollywood and New York City) in North America. It points specifically to its success in attracting investment and capital to the province; in particular leveraging $5 million in annual B.C. Film investment to a total budget, including matched funding, of $60 million per year in the industry. The program has also demonstrated that its activities have served directly to increase federal spending on culture in British Columbia.

Exhibit III
Approved Lottery Fund budget 1991-92

Municipal Affairs, Rec. & Culture*	
Recreation & Culture	$27,100,000
Granting Programs	
Downtown Revitalization	3,000,000
B.C. Film	5,000,000
Health Care Research	10,750,000
	18,750,000
Community Grant Programs	
GO B.C. - Current Year	5,000,000
- Previous Years	23,000,000
Expo Legacy	1,200,000
In Province Travel	900,000
Annual Grants	1,400,000
Community Archives Assistance	225,000
PEETS Grants	1,000,000
	32,725,000
Programs	
Multicultural Programs	1,050,000
Premier's Council for Disabled	500,000
Hospitality Program	200,000
Provincial Carillon	55,000
Disabled In-Home Program	2,000,000
	3,805,000
Special Projects	
Commonwealth Games	10,500,000
B.C. Custom Car Assoc.	1,500,000
Canada Games '93 Kamloops	2,100,000
Kamloops Multiplex	2,700,000
Expo 92 - Seville	1,220,000
Project 92 (Alaska Highway)	348,000
Travel Guide for Disabled	95,000
Year of Music	7,500,000
Maritime Bicentennial	850,000
Special Health Projects	7,550,000
Independence '92	800,000
Special Projects	1,757,000
	36,920,000
Administration	700,000
TOTAL	$120,000,000

* *The ministry was reorganized part way through the fiscal year: some of the funds remaining in Municipal Affairs, Recreation and Housing; some moving to the Ministry of Tourism and Culture.*

4. Health Care Research **$10,750,000**

This program supports a variety of health care research.

5. Expo Legacy **$1,200,000**

The Expo Legacy has been dedicated to compensate those communities that did not receive Expo funding. Generally, it permits financing of one large project in each major British Columbia community. Toward this end, swimming pools, community halls, and other large projects have been funded. A convention centre in Prince George for $12 million is now under consideration.

6. In Province Travel **$900,000**

The In Province Travel program assists B.C. school age children to attend organized events, primarily those related to sport.

7. Annual Grants **$1,400,000**

This fund goes to support charitable fund raising events such as telethons. A significant policy question concerns whether it is appropriate for government to contribute to charities and if so, which ones?

8. PEETS Grants **$1,000,000**

The PEETS Grant is a program to purchase and install satellite dishes in order to allow rural communities, which are not serviced by commercial cable companies, to access B.C.'s Knowledge Network.

9. GO B.C. **$5,000,000**

Current year/previous years' commitments **$23,000,000**

GO B.C. stands for Growth and Opportunity for British Columbia communities. It funds non-profit community projects for capital funds. According to its application form, projects must:

- Be of proven value to the community.
- Have wide public-interest or appeal.
- Be accessible by the general public.
- Be suitable for one-time-only funding.

Funding will not be considered for work already completed or equipment already acquired.

Applicants must be a municipality, district or other local government agency or must be a federally or provincially registered non-profit society. Alternatively, applicants may be a group organization operating on a non-profit basis endorsed by an appropriate community organization.

GO B.C. is clearly the largest single entity of funding approval within the Lottery Fund budget. We understand that in recent years the process for assessing eligibility, establishing guidelines, analyzing projects, and overall accountability has improved substantially. In addition, some project types that have historically been eligible for funding are now being reconsidered with respect to the program's mandate. These include for example grants to paint or otherwise refurbish community halls. We would concur that these on-going maintenance costs fall outside the spirit and intent of the Lottery Fund mandate.

Of significance as well is that there is an inventory of some $60-$70 million in grants that have been approved but which are in various stages of completion and therefore have mid-point and final payments still pending. Thus, there is a significant ($60-$70 million) future liability of government.

10. Multicultural programs **$1,050,000**

These grants represent a broad range of community, race-relations, heritage and language-related grants. The issue here is simply whether or not these programs would have been funded had they received the scrutiny and public profile associated with review of any voted expenditures. We suspect that some indeed would not.

11. Premier's Council for Disabled **$500,000**

This program supports a council of twelve. The question here is whether there is any appropriate reason for this fund to be within the Lottery Grant Program rather than within the general structure of government.

12. Disabled In-home Program **$2,000,000**

This is a program designed to assist severely disabled children in staying at home rather than being institutionalized. The program is funded one-third by the Lottery Fund.

The issue with respect to this program is that it represents a "top-up" to voted expenditures. The program itself has received the support of the Legislative Assembly. However, the entire cost picture is not so revealed. We suggest

the government might want to invite full disclosure by each funding source (including lotteries) for such programs.

Special projects

The next series of projects are those that do not fall specifically within established Lottery guidelines. The former Ministry has supported this designation by stating that the Lottery Fund must be responsive to projects which have a demonstrable community benefit but which on occasion require exceptions to be made. It is in this context that some $37 million dollars of approved funding for the 1991-92 year has been made. We highlight these below:

1. **Commonwealth Games** **$10,500,000**

This represents a cabinet-approved expenditure that has a six-year timeframe and a $36 million total obligation.

2. **B.C. Custom Car Association** **$1,500,000**

This is an atypical grant that is supporting the development of a drag strip. This Association previously had a drag strip that was expropriated by government as it was on Crown land. The ombudsman has recommended that restitution be made to this group and as such the Lottery Fund has been assigned responsibility for funding development.

3. **Canada Games '93 Kamloops** **$2,100,000**

and Kamloops multi-plex **$2,700,000**

Both of these expenditures are related to the Canada Games to be held in Kamloops in 1993.

4. **Expo '92 Seville** **$1,220,000**

This relates to British Columbia's presence at Expo 1992 and reflects just a portion of the overall $4 million commitment for this endeavour. This program is based on precedent; in 1980 the province fully participated in the Expo held in Brisbane.

5. **Project '92** **$348,000**

This project is part of the 50th Anniversary of the Alaskan Highway. The full scope of the obligation is three payments of $240,000 each for a total of $720,000. The Ministry of Tourism is peripherally involved. Staff recognize that this project is receiving little direct management or oversight.

6. Travel Guide for the Disabled **$95,000**

This represents the last payment for the development of a travel guide that identifies the needs of the disabled. Pursued initially as a separate guide, the final product is now integrated with British Columbia's main accommodation guide.

7. Year of Music **$7,500,000**

As noted earlier, this project has received intensive review by the Auditor General. Initially established with a budget of $12 million, over $20 million of Lottery Funds have now been expended. We have been assured that this level of over-run and apparent lack of project control represents historical difficulties with the Lottery Grants Program and has been addressed.

8. Maritime Bicentennial **$850,000**

This program delivered by the Protocol and Events Branch is in support of the 200th Anniversary of British and Spanish Exploration of British Columbia. It provides aid to projects that museums in small cities are putting on in commemoration of this event. It is supported by an international agreement with the States of Washington and Oregon.

9. Special Health Projects **$7,550,000**

These special grants have gone to support one-time health expenditures for such items as a magnetic resonance scanner, women's health centres, etc.

10. Independence '92 **$800,000**

This program is in support of an international conference on independent living that is being hosted in British Columbia. It is expected to have significant tourism and economic development spin offs.

11. Special Projects **$1,757,000**

This is a catch-all category that addresses non-conforming grant requests. It has covered such items as the drag and boat festival races and is usually associated with an event or special request for a contribution.

2. Expected outputs and benefits

We understand that it is planned that the Lottery Grants Program be mandated to spend half of its available funds on health-related activities.

This will require the consolidation and identification of health-related programs currently in place, as well as the development of new programs to address health needs.

C. Issues

There are five specific issues which we review below.

1. Multi-year obligations

We have noted throughout this report that many lottery grants represent multi-year obligations. For example, the contribution made to the B.C. Film Society at $5 million per year is a three-year commitment and will likely require continued renewal to sustain B.C. Film's historic success. GO B.C. is the program with the most dramatic future cost requirements. By way of example, $23 million in costs occurred within this fiscal year are, in fact, derived from previous year's commitments. We understand that within GO B.C. alone there is a potential future obligation of $40-$50 million.

Accordingly, we strongly suggest that a multi-year budget be developed for the Lottery Fund. We suspect that after accounting for future obligations, there will be little in the way of discretionary funds remaining.

2. Prioritization

We have noted that projects that are supported through the Lottery Fund receive little in the way of formal public scrutiny. We would suggest that many of these projects (such as the development of a drag strip for the B.C. Custom Car Association) would not receive funding if subject to the scrutiny associated with voted expenditures.

We suggest that the Lottery Fund must be brought "into the fold" of the traditional government accountability and review mechanisms.

3. Annual Reporting

Only recently has Lottery Grants Program and its associated ministries undertaken to release an annual report. This report however is in the form of a listing of disbursements made. We recommend that a comprehensive report be issued annually by the Lottery Grants Program.

4. Top-Ups to Government Programs

One aspect of Lottery Fund relates to "top ups" of traditional government programs, including social assistance programs. As such, government representatives do not

see the "full picture" of program costs when portions are segregated and separately funded by the Lottery Fund. We recommend, therefore, that all program funding be amalgamated, whether the source of funds is the consolidated fund, the lottery fund or other government-related revenue source.

5. Grants only

We have learned that the Lottery Fund is limited to offering grant programs only. This is based on a legal interpretation by the Ministry of Attorney General. We would suggest that steps be pursued, including legislation if required, to increase the breadth of available programs for Lottery Funds. In particular, we suggest leveraging available lottery dollars through repayable loan programs, guaranty programs and other non-grant funding programs.

D. Potential accounting adjustments

As part of this review, we assessed whether any adjustments might be necessary to the way in which the activities of the Lottery Fund have been traditionally reported and accounted for. We noted the following issues:

1. Opening balance of the Lottery Fund

As mentioned earlier in this report, the opening balance of the Lottery Fund is now designated at $158 million as at the beginning of fiscal year 1991/92. We suggest that it may be appropriate to reduce this opening balance and to reflect the true financial position of the fund—that is, a zero balance. Elsewhere in the Financial Controls report we have commented on the use of, and disclosure provided by, Special Accounts.

2. Downtown Revitalization Program

Through the course of our interviews we noted that the Downtown Revitalization Program is anticipating on its books a $5 million contribution from the Lottery Fund. During our review of the Lottery Fund budget, however, we noted a lottery commitment of only $3 million. This $2 million variance will need to be resolved.

3. Future obligations

We understand that, if the fund were to be wound down today, there would be a continued obligation for some $100 million to complete partially funded projects. Thus, this $100 million future obligation may need to be appropriately reported. In addition, the issue paper on Accounting Policies identified the changes required in the accounting treatment of government transfers (such as grants). It is probable that this change in policy will necessitate earlier recognition of lottery grants in the Public Accounts, than has hitherto been the case.

E. Future potential impacts

We understand that there has been some suggestion that the Lottery Fund could be obliged to pay "interest" on any project funds that were not disbursed in the initial year of the grant. We agree with ministry staff that allowing for interest costs sets a dangerous precedent. We therefore, concur that in the future, no commitments for interest costs be made and that "interest" be defined as a non-allowable expense for lottery grant submissions.

F. Implications for government

We further understand that the Lottery Fund may be restructured so as to designate that fully one-half of the revenue goes to health care programs. Currently there are a number of health care related projects, including health care research at $10.75 million, special health projects at $7.55 million and other health related projects dispersed throughout a variety of lottery-funded programs.

Despite this historic investment in health care related matters, the goal of one-half of Lottery Funds to health care is a substantial one. Clearly, it will require the identification of those non-health-care programs that will need to be discontinued and appropriate health care programs identified in their stead. This could be a significant issue in the public eye and is likely to receive considerable public attention. Such a change supports our earlier view that the activities in the fund need to be both visible and properly controlled.